MILTON BRICK CO. LIMITED

33RD ANNUAL REPORT 1970

TO OUR SHAREHOLDERS:

After seven consecutive years of increasing sales and operating profit, I have the disagreeable task of reporting that in 1970, the unfortunate result of five and one half months of work stoppage at our Milton plant coupled to the effects of the Ottawa Government's anti-inflation program, proved more than could be overcome. Hence your Company suffered a sharp decline in revenue and its first operating loss under present management. About the only solace I can find is that we are NOT alone. It was an unhappy year for many industries. Fortunately it is over.

I am pleased to report that the volume of business so far in 1971 shows a marked improvement at an accelerating pace. This augurs well for the rest of the year. With the lowering of interest rates, the easing of the money supply, mortgage funds in particular, and increased activity in new housing in Canada as well as in the U.S., I can say with confidence that our Company this year will resume the growth pattern which we have become accustomed to since 1963. I should add that the measures we took last year to increase the efficiency of our Milton plant, have proven most successful. We note a substantial improvement in productivity.

For the year ended December 31, 1970, gross sales decreased by 49% from the previous year. This resulted in a loss of $18,034 in contrast to the profit of $317,315 or 55.4¢ per share in 1969.

The financial position of the Company was actually strengthened by the acquisition of our controlling interest in Flemdon Limited. We increased our share interest from 36.6% to 50.1% — which transaction resulted in a gain of $226,220 in book value over the cost of our investment. Our Shareholders' equity is accordingly increased, more than compensating for the years' operating loss.

Because this acquisition took place near the end of the year, Flemdon's earnings have not been consolidated in our 1970 accounts. They will be consolidated in 1971. In its year-end report recently issued, Flemdon showed a profit after taxes of $79,057 or 8.6¢ per Flemdon share before non-recurring extraordinary charges.

The acquisition of control of Flemdon will redound to the benefit of your Company. At December 31st, 1970, Flemdon reported working capital of $2,012,702, a major part of which is presently invested in short term commercial notes, marketable securities and loans against mortgages — all of which are earning a good income for the company. The capital resources of Flemdon taken together with your Company's improved working capital of $2,600,272 (as of December 31st, 1970) provides us with an exceptionally strong financial base which is an important source of investment income, while retaining a high degree of liquidity, as indicated by the ratio of Current Assets to Current Liabilities of 17½ to 1.

A MUCH BRIGHTER OUTLOOK

As I have noted above, the outlook for your Company through 1971 and 1972 is infinitely brighter than at this time last year. The most recent survey of capital spending intentions by business and government indicates that outlays this year will be well in excess of $19 billion marking a 10% increase over last year. Outlays for housing so far this year are up 24% over this time last year while housing starts are up between 35% and 40%. The federal government has forecast a record year for housing, with 220,000 units the predicted total.

Your Company is now in a better position than ever before to take full advantage of this rising level of construction activity. Last year, at a capital cost of $111,832 — more than double our capital expenditures of the year before — we installed new equipment at the Milton plant which is now "earning its keep" by not only increasing productivity, but by improving quality and augmenting capacity — which, of course, strengthens our competitive position in the industry.

Our subsidiaries, now increased by the addition of Flemdon Limited, are also of importance in expanding the scope of operations. The Regal Trucking Division has allowed us to open up a very substantial market for bricks in Northern Ontario, an area which I know from personal experience, is in a period of considerable growth. The Global Marble division will unquestionably benefit from the much healthier financial outlook for 1971 and 1972.

I should point out also that Transmil Properties continues to hold substantial acreage of well-located, saleable land suitable for housing development in the Milton area. REGAL, GLOBAL, and TRANSMIL are wholly-owned subsidiaries.

To sum up, we have entered a new year on a note of real but modest optimism generated by the tangible evidence of the inflow of new orders from our customers. You may be sure your management intends to take full and prompt advantage of the clearly brightening construction climate to ensure that your Company quickly re-establishes the curve of growth, temporarily depressed in 1970. I am confident that our first six months earnings will clearly mark this renewed progress.

Your Directors and I appreciatively acknowledge the continued encouragement of our Shareholders, Customers, Suppliers; and the dedicated efforts contributed by our employees and associates.

On behalf of the Board

J. T. Blume

May 3, 1971 **J. T. BLUME,** ***Chairman***

Flemdon ?

DIRECTORS

A. Bram Appel
J. T. Blume
A. J. B. Gray
Lionel J. McGowan
P. K. McWilliams, Q.C.
J. T. Norris
Samuel P. Smith

Listing — Toronto Stock Exchange

Transfer Agent — Canada Permanent Trust Co.

Bankers — Canadian Imperial Bank of Commerce
Toronto Dominion Bank

Auditors — McDonald, Currie & Co.

Milton Brick Co. Limited and Subsidiaries

CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS

for the year ended December 31, 1970 with comparative figures for 1969

	1970	1969
Operating profit before depreciation	$ 32,633	435,995
Less depreciation	26,714	23,887
Earnings from operations	5,919	412,108
Other income (expense)		
Provision for doubtful accounts (Note 5)	(144,353)	(2,710)
Interest and dividends	56,181	79,746
Royalties — Net	56,600	69,600
Gain (loss) on sale of investments	(16,488)	17,361
Miscellaneous	7,605	3,853
Loss on disposal of assets	(1,742)	(4,007)
	(42,197)	163,843
Earnings (loss) before income tax	(36,278)	575,951
Provision for income taxes		
Current	(42,302)	245,396
Deferred	19,058	13,240
	(23,244)	258,636
Net earnings (loss) for the year	(13,034)	317,315
Earnings per share	—	55.4¢

	1970	1969
Retained earnings — beginning of year	$1,416,906	$1,280,293
Net earnings (loss) for the year	(13,034)	317,315
	1,403,872	1,597,608
Dividends — Common shares	114,440	180,702
Balance — end of year	1,289,432	1,416,906

CONSOLIDATED STATEMENT OF SOURCE AND USE OF FUNDS

Source of funds:	1970	1969
Net earnings (loss) for the year	$ (13,034)	317,315
Items not affecting working capital —		
Deferred income taxes	19,058	13,240
Prior year adjustment	802	—
Depreciation	26,714	23,887
	33,540	354,442
Loss on disposals of fixed assets	16,831	4,007
	50,371	358,449
Proceeds from long-term debt	140,000	—
Refund of 5% special refundable tax	1,955	5,863
Proceeds from sale of equipment	1,200	17,537
Minority interest	1,079,073	—
Excess of book value of net assets over cost of investment in shares of subsidiary	226,220	—
	1,498,819	381,849
Use of funds:		
Issue of 15% promissory note	145,000	—
Purchase of fixed assets	111,832	47,326
Dividends paid	114,440	180,702
	371,272	228,028
Increase in working capital	1,127,547	153,821
Working capital — beginning of year	1,472,725	1,318,904
Working capital — end of year	$2,600,272	$1,472,725

Milton Brick Co. Lim

GLOBAL MARBLE OF CANADA LTD. — TRANSMIL PROPERTIES C

Consolidated Balance Sheet as at Decemb

ASSETS

	1970	1969
Current assets:		
Cash	**$ 54,273**	$ 165,693
Short-term commercial notes — at cost which approximates market	**1,257,449**	—
Marketable securities — at cost (quoted market value 1970 —$505,010; 1969 — $1,016,765)	**629,672**	870,180
Accounts receivable	**185,562**	313,191
Inventories — at cost	**302,818**	236,678
10% Second mortgage due September 1971	**42,000**	—
15% Promissory note due December 1971, secured by second mortgage	**280,000**	—
Income taxes recoverable	**6,270**	—
Prepaid expenses	—	100
Total current assets	**2,758,044**	1,585,842
5% special refundable tax	—	1,955
Investments:		
7% Mortgage receivable — due September 30, 1972	**101,399**	101,399
15% Promissory note, due April 1972, secured by a second mortgage	**145,000**	—
Other investments	**13,482**	13,482
Total investments	**259,881**	114,881
Fixed assets — at cost less accumulated depreciation (Note 2)	**664,729**	598,444
Other assets:		
PCV licences — at cost less amounts written off	**30,212**	30,212
	$3,712,866	$2,331,334

Signed on behalf of the Board:

J. T. BLUME, Director L. J. McGOWAN, Director

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Milton Brick Co. Limited and Subsidiaries as at December 31, 1970 and the consolidated statements of earnings, retained earnings and source and use of funds for the year then ended. Our examination of the financial statements of Milton Brick Co. Limited and its subsidiaries of which we are the auditors, included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We have relied on the report of the auditors who have examined the financial statements of one subsidiary (Flemdon Limited).

In our opinion, these consolidated financial statements present fairly the consolidated financial position of the companies as at December 31, 1970 and the consolidated results of their operations and the source and use of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Hamilton, Ontario,
April 26, 1971.

McDONALD, CURRIE & CO.,
Chartered Accountants.

ed and Subsidiaries

, LTD. — REGAL TRANSPORT LIMITED — FLEMDON LIMITED

1, 1970, with comparative figures for 1969

LIABILITIES

	1970	1969
Current liabilities:		
Bank loan	$ 60,000	—
Accounts payable and accruals	97,772	55,145
Income taxes payable	—	57,972
	157,772	113,117
Long-term debt (Note 4)	140,000	—
Deferred income taxes	45,248	26,190
Minority interest in net assets of consolidated subsidiary company	1,079,073	—

SHAREHOLDERS' EQUITY

	1970	1969
Capital stock:		
Authorized		
1,000,000 Common shares of no par value		
Issued and fully paid		
572,200 Common shares	775,121	775,121
Retained earnings	1,289,432	1,416,906
	2,064,553	2,192,027
Excess of book value of net assets over cost of investment in shares of a subsidiary	226,220	—
Total shareholders' equity	2,290,773	2,192,027
	$3,712,866	$2,331,334

Notes:

1. **Principles of consolidation**
The consolidated financial statements include the accounts of all subsidiary companies.
As of December 31, 1970, Transmil Properties Corp. Limited, a wholly owned subsidiary acquired control of Flemdon Limited. The earnings for the current year of Flemdon Limited have NOT been included but it is the intention of the Board of Directors to consolidate its earnings in future years.

2. **Fixed assets**
Land, buildings, machinery and equipment and related accumulated depreciation and depletion are classified as follows:

	Cost	Accumulated Depreciation and Depletion	Net
Land	$ 140,195	$ 125,071	$ 15,124
Buildings	1,083,129	789,398	293,731
Machinery and equipment	757,702	420,742	336,960
Trucks and tractors	97,204	78,290	18,914
	$2,078,230	$1,413,501	$ 664,729

3. **Sales**
The Supreme Court of Ontario, on October 2, 1968, authorized the omission of sales and gross revenue derived from operations from the financial statements of Milton Brick Co. Limited and subsidiary companies to be laid before the annual meeting of shareholders. The gross sales decreased by 49.0% over the previous year and by 39.1% over the average of the past six years.

4. **Long-term debt**
This bank loan bears interest at a rate of ½% above the prime bank rate and is repayable in monthly instalments of $5,000. The total amount due within the next fiscal year is included in current liabilities.

5. **Provision for doubtful accounts**
This expense includes an amount of $101,466 in 1970, being a provision against a possible loss on royalties claimed from Milton Quarries Limited, with respect to which your company has instituted litigation, which is in progress against Milton Quarries Limited.

6. **Remuneration**
Remuneration paid to directors amounted to $1,500 in 1970 and $650 in 1969.

Milton Brick Co. Limited and Subsidiaries

THE SEVEN YEAR RECORD OF YOUR COMPANY

	1970	1969	1968	1967	1966	1965	1964
Total current assets	**$2,758,044**	$1,585,842	$1,443,906	$1,143,866	$1,053,440	$ 999,912	$ 840,166
Total current liabilities	**157,772**	113,117	125,002	147,822	123,358	147,471	187,606
Net working capital	**2,600,272**	1,472,725	1,318,904	996,044	930,082	852,441	652,560
Ratio of current assets to current liabilities	**17.5**	14.02	11.5	7.74	8.54	6.78	4.48
Profit (loss) before income taxes	**(36,278)**	575,951	608,651	509,316	387,297	319,981	277,267
Income taxes — Current	**(42,302)**	245,396	197,341	165,965	170,666	134,500	105,838
— Deferred	**19,058**	13,240	12,950	12,300	17,600	12,100	16,000
Total	**(23,244)**	258,636	210,291	178,265	188,266	146,600	121,838
Net profit (loss)	**(13,034)**	317,315	398,360	331,051	199,031	173,381	155,429
Earnings per share	—	55.4¢	69.6¢	57.9¢	34.8¢	30.3¢	27.2¢
Dividends per share	**20¢**	31.5¢	27¢	25¼¢	24¼¢	20¢	20¢
Earnings transferred	**(101,406)**	136,613	248,762	205,211	83,964	130,773	62,013

Note: To provide for comparability with the tax allocation method of accounting adopted by the Company in 1968, income taxes and net profits have been adjusted to indicate both current and deferred income taxes in each of the years 1967, 1966, 1965 and 1964; earnings per share are calculated in all years on the basis of 572,200 common shares outstanding as at December 31, 1970.

Many people in the business community have expressed an interest in knowing more about our company.

In response, we submit a copy of our annual report which we hope may be of interest to you.

We will be pleased to supply you with additional copies on request.

OFFICES AND PLANTS: TORONTO AND MILTON, ONTARIO, CANADA